


Pennington's

1974 ANNUAL REPORT  
PENNINGTON'S STORES LIMITED



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## FINANCIAL HIGHLIGHTS

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	December 28, 1974	Change %	December 29, 1973
Sales	19,169,423	+ 25.99	15,215,566
Income after taxes	1,878,495	+ 26.93	1,479,937
Earnings per share	92.7¢	+ 26.81	73.1¢
Working capital	3,554,072	+ 20.54	2,948,387
Working capital ratio	2.78:1		2.49:1
Dividends	648,640	+ 14.42	566,902
Dividends per share	32¢	+ 14.29	28¢
Number of stores	58	+ 23.40	47

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### Board of Directors

Sol Armel  
Donald Carr, Q.C.  
William Drevnig  
Albert Sherman  
Jack Sherman  
Mark Vansittart

### Officers

William Drevnig – *President*  
Albert Sherman – *Vice-President and Secretary*  
Sol Armel – *Executive Vice-President*  
Jack Sherman – *Vice-President*  
Emanuel Asher – *Vice-President, Retail Operations*  
William Farewell, C. A. – *Treasurer*

### Transfer Agent & Registrar

The Canada Trust Company

### Auditors

Laventhol & Horwath

### Exchange Listing

The Toronto Stock Exchange  
Ticker PNS

### Head Office

PENNINGTON'S STORES LIMITED  
40 Samor Road  
Toronto, Ontario M6A 1J6  
Telephone: 787-4973

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*The accompanying reproductions are of Place Quebec store in Quebec City opened during 1974.*







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## TO OUR SHAREHOLDERS

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On behalf of the Board of Directors I am pleased to report another year of progress for your Company. Despite a year of unprecedented inflation and interest rate levels in Canada along with a more price-value conscious consumer, total sales and net income continued to show further improvement.

### Financial Results

Total sales for the year ended December 28th, 1974 were \$19,169,423 which amounts to an increase of 26% over 1973. Pre-tax income achieved an improvement of 31.22% rising from 3,007,937 to 3,946,995. The Company's income tax rate was significantly higher as a result of the 10% federal corporate surtax which was retroactive to May 1st. This additional tax amounted to \$99,700 which was equal to 4.9 cents per share. Net income for the year recorded a gain of 26.9% to \$1,878,500 while earnings per share increased from 73.1¢ to 92.7¢ based on the weighted average number of shares outstanding during the year. A further improvement was also made in working capital and inventory turnover. Working capital increased from \$2.9 to \$3.6 million and is reflected in the current ratio which rose from 2.49 to 2.78:1. Cash flow also showed a further strengthening trend rising \$472,000 to \$2,179,500.

We are particularly gratified by the improvement in profitability in view of the escalating cost pressures throughout the year. The introduction of the photo cell handling system in our warehouse in late 1973 has helped to expedite the distribution of merchandise to our stores and provided us with certain cost efficiencies.

### Store Development

Capital expenditures in 1974 totalled \$821,744 and were primarily used to construct and fixture a total of 11 new stores. This increased the total number in

operation to 58 at year end.

In view of the slower rate of economic growth forecast for Canada this year, your management has decided to undertake a more moderate expansion programme in order to improve working capital liquidity. Accordingly, a total of 6 new stores are scheduled to open this year with one opening in the first half and the remaining five in the second six months.

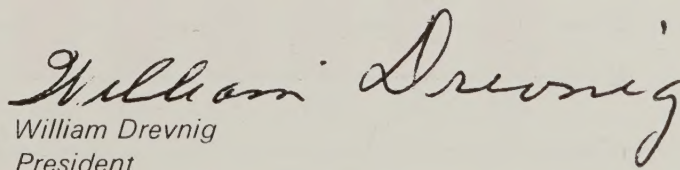
### Dividends

In keeping with the Company's policy to pay out under normal circumstances, approximately one-half of the previous year's earnings as dividends, your board of directors has declared an increase in the quarterly dividend from 8 cents to 10 cents per share. This raises the annual indicated rate from 32 to 40 cents per share. The new rate commenced with the March 31st payment to shareholders and is the fifth consecutive year that dividends have been increased. The March quarterly dividend was tax-paid and it is expected that the remaining 1975 quarterly payments will be on a similar basis.

### Outlook

Business in the current year to date has been encouraging with total sales showing an increase of 29% in the first eight weeks of 1975. It is expected that your Company will experience another satisfactory year of sales and earnings improvement barring any major change in consumer buying patterns.

Our skills lie in the strength of our management and loyalty of our employees. To all these people we express our deep appreciation.

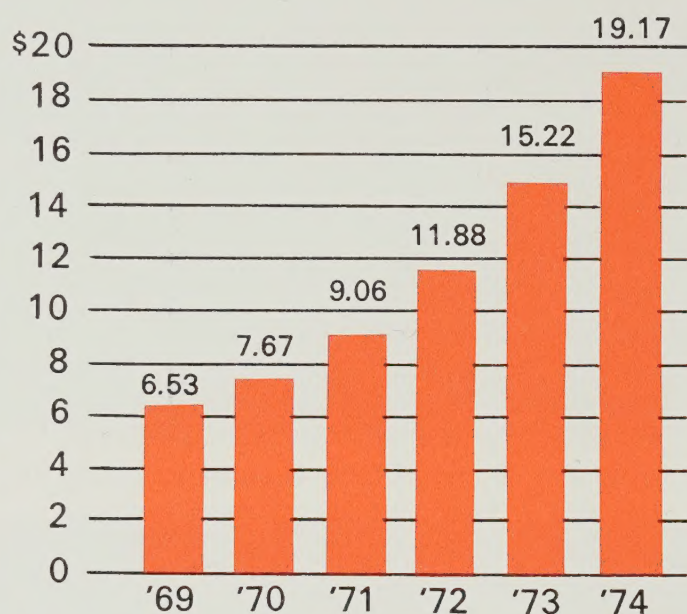
  
William Drevnig  
President



# Pennington's

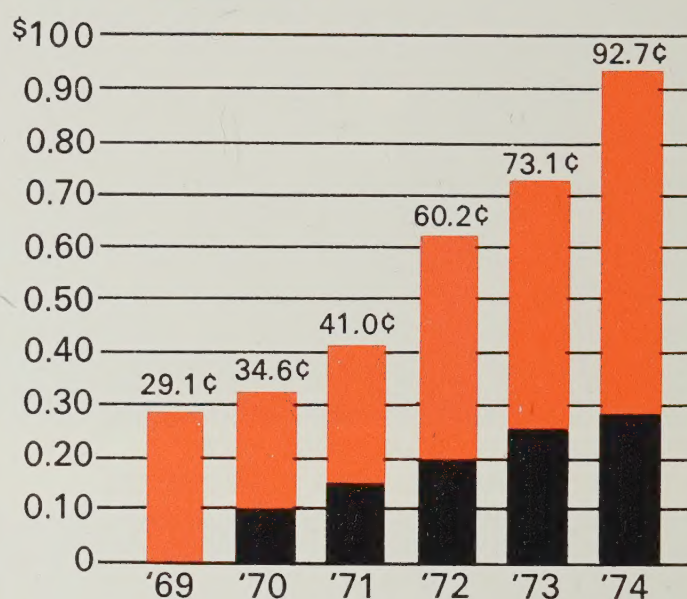
## GROWTH OF SALES

in millions of dollars



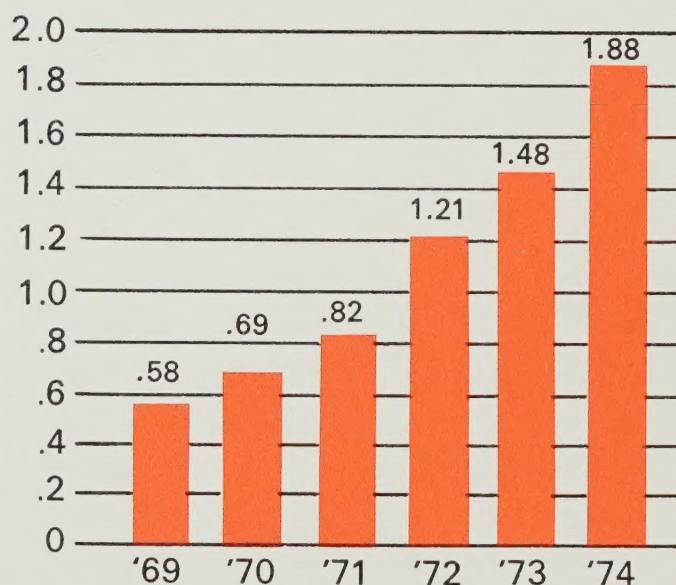
## GROWTH OF EARNINGS PER SHARE

dividends earnings



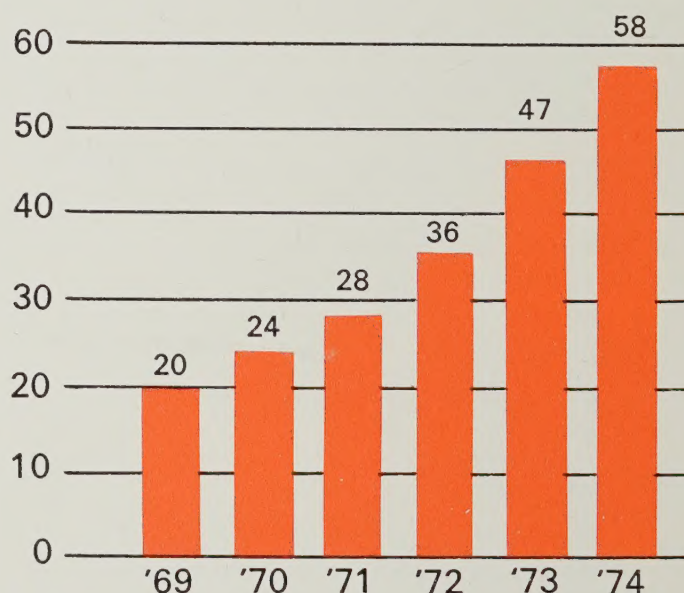
## GROWTH IN NET INCOME

in millions of dollars



## GROWTH IN NUMBER OF STORES

units in operation at end of year





# STATEMENT OF INCOME

year ended December 28, 1974

	1974	1973
Sales	\$19,169,423	\$15,215,566
Cost of sales, selling and administrative expenses	14,963,153	12,022,954
Depreciation	259,275	184,675
	15,222,428	12,207,629
Income before taxes	3,946,995	3,007,937
Income taxes	2,068,500	1,528,000
Net income	\$ 1,878,495	\$ 1,479,937
Earnings per share	92.7¢	73.1¢

# STATEMENT OF RETAINED EARNINGS

year ended December 28, 1974

	1974	1973
Retained earnings, beginning of year	\$4,291,287	\$3,478,002
Net income for year	1,878,495	1,479,937
	6,169,782	4,957,939
Dividends (Note 4)	648,640	566,902
15% tax paid on portion of undistributed income	114,450	99,750
	763,090	666,652
Retained earnings, end of year	\$5,406,692	\$4,291,287



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## BALANCE SHEET

December 28, 1974

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ASSETS	1974	1973
Current:		
Cash and term deposits	\$ 897,582	\$ 737,077
Accounts receivable, trade	519,677	430,100
Accounts receivable, other	190,250	136,280
Inventories at lower of cost and net realizable value less normal profit margin	3,899,447	3,573,542
Prepaid expenses and sundry assets	44,391	47,558
	<u>5,551,347</u>	<u>4,924,557</u>
Loan to employee (Note 2)	<u>80,100</u>	<u>86,300</u>
Fixed, at cost:		
Furniture, fixtures and leasehold improvements	3,339,991	2,528,248
Motor vehicles	39,888	39,888
	<u>3,379,879</u>	<u>2,568,136</u>
Less accumulated depreciation	1,014,271	764,996
	<u>2,365,608</u>	<u>1,803,140</u>
Excess of cost over book value of businesses acquired	947,089	947,089
	<u><u>\$8,944,144</u></u>	<u><u>\$7,761,086</u></u>



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LIABILITIES	1974	1973
Current:		
Accounts payable and accrued liabilities	\$1,141,456	\$1,408,107
Income taxes payable	693,658	426,285
Dividend payable	162,161	141,778
	1,997,275	1,976,170
Deferred income taxes	146,840	105,091

SHAREHOLDERS' EQUITY

Capital stock (Note 3):		
Authorized:		
6,000,000 Common shares, without par value		
Issued:		
2,027,000 Shares (1973 – 2,025,400 shares)	1,393,337	1,388,538
Retained earnings (Note 4)	5,406,692	4,291,287
	6,800,029	5,679,825
	\$8,944,144	\$7,761,086

On behalf of the Board:

*William Drevny*  
Director

*S. Amel*  
Director

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## STATEMENT OF CHANGES IN FINANCIAL POSITION

*year ended December 28, 1974*

	<u>1974</u>	<u>1973</u>
Financial resources were provided by:		
Working capital provided by operations:		
Net income	<u>\$1,878,495</u>	<u>\$1,479,937</u>
Expenses not requiring current outlay of working capital:		
Depreciation and amortization	<u>259,275</u>	<u>184,675</u>
Deferred income taxes	<u>41,749</u>	<u>42,797</u>
	<u>301,024</u>	<u>227,472</u>
Total working capital provided by operations	<u>2,179,519</u>	<u>1,707,409</u>
Issue of common stock for cash under employee stock option plan (Note 3)	<u>4,800</u>	<u>15,638</u>
Repayment received on loan to employee (Note 2)	<u>6,200</u>	<u>4,200</u>
	<u>2,190,519</u>	<u>1,727,247</u>
Financial resources were used for:		
Purchase of fixed assets	<u>821,744</u>	<u>875,127</u>
Dividends (Note 4)	<u>648,640</u>	<u>566,902</u>
15% tax paid on portion of undistributed income	<u>114,450</u>	<u>99,750</u>
	<u>1,584,834</u>	<u>1,541,779</u>
Increase in working capital (Note 7)	<u>605,685</u>	<u>185,468</u>
Working capital, beginning of year	<u>2,948,387</u>	<u>2,762,919</u>
Working capital, end of year	<u><u>\$3,554,072</u></u>	<u><u>\$2,948,387</u></u>

## AUDITORS' REPORT

To the Shareholders of  
Pennington's Stores Limited.

We have examined the balance sheet of Pennington's Stores Limited as at December 28, 1974 and the statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 28, 1974 and the results of its operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

*Toronto, Ontario,  
March 11, 1975.*

*Laventhol & Horwath  
Chartered Accountants.*



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# NOTES TO FINANCIAL STATEMENTS

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December 28, 1974

**1. Accounting policies :**

The accounting policies of the company are in accordance with generally accepted accounting principles and are applied on a consistent basis. The following is a summary of the significant accounting policies followed in the preparation of these financial statements :

(a) Inventories :

Inventories are priced at the lower of average cost and market determined by the retail method ; market being net realizable value less normal profit margin.

(b) Fixed assets :

Fixed assets are stated at cost ; depreciation is being provided at the following annual rates :

Furniture and fixtures	— 10% straight-line method
Leasehold improvements	— 10% straight-line method
Automobiles	— 30% reducing balance method

Profits or losses arising on the disposal of assets are included in income for the period in which the profit or loss arose. Maintenance and repair expenses are written off in the period the expenditure is incurred.

(c) Income taxes :

The company follows the allocation method of reporting taxes on income. Under this method, recognition is given in the accounts to the tax effects of the annual difference between reported income and taxable income which results from the company claiming for income tax

purposes depreciation in excess of amounts reported in the accounts.

(d) Intangible assets :

In 1969 the company acquired the net assets of the businesses carried on by certain stores throughout Western Canada for an amount in excess of their book values. This excess is not being amortized as in the opinion of management it has continuing value.

(e) Earnings per share :

Earnings per share are based on 2,026,733 shares (1973—2,024,216), the weighted average number of shares outstanding during the year. On the assumption that all options outstanding at the end of the year were exercised, there would be no significant dilution of basic earnings per share.

**2. Loan to employee :**

In 1972 the company loaned \$94,500 to a senior employee without interest and the loan proceeds were used for the subscription of 20,000 shares of the company's capital stock. This loan is to be outstanding during his employment, but, in any event, is to be repaid by October 31, 1976 and is secured by a pledge of these shares. As at December 28, 1974, \$14,400 had been repaid.

**3. Capital stock :**

During the year 1,600 shares were issued pursuant to the company's employees' stock option plan for cash consideration of \$4,800.

After giving effect to the exercise of the options noted above, 41,000 shares remain reserved for issue under the stock option plan. As at

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December 28, 1974 the following options were outstanding :

	Number of Shares
Options at \$4.6125 per share, expiring April 18, 1976	2,000
Options at \$9.90 per share, expiring November 14, 1978	2,500
	<u>4,500</u>

#### 4. Retained earnings :

Retained earnings at December 28, 1974 includes \$996,108 of 1971 undistributed income on hand as defined by the Canadian Income Tax Act. This tax surplus can be distributed tax free to the shareholders after payment by the company of a 15% tax thereon. 1971 capital surplus of \$2,471 also included in retained earnings can be distributed tax free only after all the required tax has been paid on the 1971 undistributed income.

During the year the company converted \$763,000 of 1971 undistributed income into tax-paid undistributed surplus by the payment of a 15% tax of \$114,450 and distributed \$648,640 to the shareholders by way of tax-free dividends.

#### 5. Long-term leases :

Long-term leases entered into by the company for the rental of store locations and warehouse facilities extend into the year 1990. The company has also entered into lease commitments for 6 new store locations. The majority of the store leases provide for payment to the lessor of a percentage of sales. Minimum annual rentals payable and estimated percentage rent payable where leases do not provide for minimum rents (exclusive of taxes and other

occupancy charges) will aggregate approximately \$1,400,000 during 1975.

#### 6. Remuneration of directors and senior officers :

Direct remuneration paid to directors and senior officers of the company (as defined by The Business Corporations Act of Ontario) amounted to \$280,400 (1973—\$205,200).

#### 7. Change in components of working capital :

	1974	1973
Increase (decrease) in current assets :		
Cash	\$160,505	(\$ 864,418)
Accounts receivable, trade	89,577	100,762
Accounts receivable, other	53,970	110,792
Inventory	325,905	1,162,063
Prepaid expenses and sundry assets	(3,167)	15,628
	<u>626,790</u>	<u>524,827</u>
Increase (decrease) in current liabilities :		
Accounts payable and accrued liabilities	(266,651)	79,505
Income taxes payable	267,373	118,076
Dividend payable	20,383	141,778
	<u>21,105</u>	<u>339,359</u>
Increase in working capital	<u>\$605,685</u>	<u>\$ 185,468</u>

#### 8. Comparative figures :

1973 comparative figures have been reclassified to conform with the 1974 presentation.





*Interior photographs of  
our Place Quebec Store.*



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# STORE LOCATIONS

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497 Danforth Avenue  
Toronto, Ontario

2850 Dundas St. W.  
Toronto, Ontario

231 Yonge Street  
Toronto, Ontario

Lawrence Plaza  
Toronto, Ontario

Rexdale Plaza  
Rexdale, Ontario

Shopper's World Plaza  
3003 Danforth Ave.  
Toronto, Ontario

Yorkdale Shopping Centre  
Toronto, Ontario

The Centre  
Hamilton, Ontario

Polo Park Shopping Centre  
Winnipeg, Manitoba

Place Laurier  
Ste. Foy, P.Q.

Place Ville Marie  
Montreal P.Q.

Dorval Gardens Shopping Centre  
Dorval, P.Q.

St. Laurent Shopping Centre  
Ottawa, Ontario

Shopper's Park—Westmount  
Edmonton, Alberta

Les Galeries D'Anjou  
Ville D'Anjou, P.Q.

Halifax Shopping Centre  
Halifax, Nova Scotia

Chinook Ridge Shopping Centre  
Calgary, Alberta

Wellington Square Centre  
London, Ontario

Hillside Shopping Centre  
Victoria, B.C.

Midtown Plaza  
Saskatoon, Sask.

Park Royal Shopping Centre  
West Vancouver, B.C.

Southgate Shopping Centre  
Edmonton, Alberta

Fairview Mall  
Willowdale, Ontario

Garden City Shopping Centre  
West Kildonan, Manitoba

Sherway Gardens  
Etobicoke, Ontario

City Centre  
Sudbury, Ontario

Centre D'Achat Les Rivières  
Trois Rivières, P.Q.

Quinte Mall  
Belleville, Ontario

Brentwood Mall  
Burnaby, B.C.

Surrey Place  
Surrey, B.C.

Orchard Park Shopping Centre  
Kelowna, B.C.

Londonderry Mall  
Edmonton, Alberta

Centre Laval  
Laval, Quebec

Alexis Nihon Plaza  
Montreal, Quebec

Les Galeries Hull  
Hull, Quebec

3711 Keele Street  
Downsview, Ontario

Eastgate Square Shopping Centre  
Stoney Creek, Ontario

Bramalea City Centre  
Bramalea, Ontario

Scarborough Town Centre  
Scarborough, Ontario

Bayshore Shopping Centre  
Ottawa, Ontario

Richmond Centre  
Richmond, B.C.

Carrefour De L'Estrie  
Sherbrooke, Quebec

Mic-Mac Shopping Centre  
Dartmouth, N.S.

Mississauga City Centre  
Mississauga, Ontario

Station Mall  
Sault Ste. Marie, Ontario

Georgian Mall  
Barrie, Ontario

Tecumseh Mall  
Windsor, Ontario

Le Carrefour Laval  
Laval, Quebec

Place Quebec  
Quebec City, Quebec

215 McDermot Avenue  
Winnipeg, Manitoba

Upper Canada Mall  
Newmarket, Ontario

Lynden Park Mall  
Brantford, Ontario

Park Street Plaza  
Thunder Bay, Ontario

Devonshire Mall  
Windsor, Ontario

Champlain Place  
Moncton, N.B.

Market Square  
Kitchener, Ontario

Burlington Mall  
Burlington, Ontario

Pine Centre  
Prince George, B.C.

Peterborough Square  
Peterborough, Ontario  
(opening 1975)

Pacific Centre  
Vancouver, B.C.  
(opening 1975)

Place Vertu  
St. Laurent, Quebec  
(opening 1975)

Lethbridge Centre  
Lethbridge, Alberta  
(opening 1975)

Edmonton Centre  
Edmonton, Alberta  
(opening 1975)

Gerrard Square  
Toronto, Ontario  
(opening 1975)

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*Pennington's*

STORES LIMITED

**INTERIM REPORT**

for 26 weeks ended

June 29, 1974



## To the Shareholders

*CanCorp*

Total sales in the 26 weeks ended June 29th, 1974 amounted to \$7,922,000 which represents an increase of 18.7% over last year. Net income in the period under review amounted to \$623,000 as compared with \$573,000 in 1973. Earnings per share based on the weighted monthly average number of shares outstanding increased from 28.3 cents to 30.8 cents.

I am pleased to report the following progress in the 13 weeks ended June 29th, 1974. Total sales in the second quarter were 21.5% ahead of the similar period last year reflecting an improving growth trend over the first quarter performance. There has been an improvement in the operating cost ratio in the second quarter which has favourably affected our earnings performance. Net income in the second quarter increased 20.3% over the corresponding period of last year.

Your Company delayed the receipt of Fall merchandise in anticipation of the removal of the 12% Federal Sales Tax on clothing. These tax savings will be passed along to our customers and we are hopeful that this action will stimulate additional sales.

A total of five stores have been opened in the year to date and we expect to open a total of six additional locations during the remainder of the year.

Your Board of Directors has declared a tax-paid quarterly dividend of 8 cents per share payable on September 30th, 1974 to shareholders of record September 16th, 1974.

August, 1974

William Drevnig  
*President*



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# PENNINGTON'S STORES LIMITED

## Statement of Income

(UNAUDITED) FOR TWENTY-SIX (26) WEEKS  
ENDED JUNE 29, 1974

	June 29, 1974	June 30, 1973
SALES	\$7,922,000	\$6,673,000
COST OF SALES, SELLING & ADMINISTRATIVE EXPENSES	6,533,000	5,426,000
Depreciation	122,000	81,000
	6,655,000	5,507,000
INCOME BEFORE TAXES	1,267,000	1,166,000
INCOME TAXES	644,000	593,000
NET INCOME	\$ 623,000	\$ 573,000
EARNINGS PER SHARE*	30.8¢	28.3¢
SHARES OUTSTANDING AT END OF PERIOD	2,027,000	2,024,400

\*Computed on the average  
number of shares outstanding  
during the period.

## Statement of Source and Application of Funds

(UNAUDITED) FOR TWENTY-SIX (26) WEEKS  
ENDED JUNE 29, 1974

### SOURCE OF FUNDS

Operations		
Net Income for the Period	\$ 623,000	\$ 573,000
Expenses not requiring current outlay of funds:		
Depreciation	122,000	81,000
Deferred Income Taxes	7,000	3,000
Total funds from operations	752,000	657,000
Repayments on loan to employee	3,000	—
Issue of Shares	5,000	11,000
	760,000	668,000

### APPLICATION OF FUNDS

Purchase of Fixed Assets	377,000	243,000
Dividends	324,000	283,000
15% tax paid on portion of undistributed income	57,000	51,000
	758,000	577,000
INCREASE IN WORKING CAPITAL	\$ 2,000	\$ 91,000



# AR13

## BOARD OF DIRECTORS

Sol Armel  
Donald Carr, Q.C.  
William Drevnig  
Albert Sherman  
Jack Sherman  
Mark Vansittart

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## OFFICERS

William Drevnig – *President*  
Albert Sherman – *Vice-President and Secretary*  
Sol Armel – *Vice-President and Treasurer*  
Jack Sherman – *Vice-President*

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## TRANSFER AGENT AND REGISTRAR

The Canada Trust Company

## AUDITORS

Laventhol Krekstein Horwath & Horwath

## LISTED

The Toronto Stock Exchange  
Ticker: PNS

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## HEAD OFFICE

PENNINGTON'S STORES LIMITED  
40 Samor Road  
Toronto, Ontario M6A 1J6  
Telephone : 787-4973